

The economic situation in Egypt

Opinion is divided on the state of the Egyptian economy, but one thing appears certain: Egypt should rely on itself and immediate neighbours first and foremost, writes **Abdel-Moneim Said**

There are two general prognoses for the Egyptian economy after the revolution. One is extremely optimistic, holding that Egypt is forging its way to a resplendent period of economic progress and prosperity. The other is just as extreme in its pessimism, and foresees total economic collapse and bankruptcy. My friend Samir Radwan is remarkable in that he subscribes to both views at the same time. He is what we might call "pessi-optimistic" or "opti-pessimistic". He believes that the economy is heading downhill, but that there are opportunities that could lead to quite a positive situation.

The optimists proceed from the premise of all revolutionaries: now that the corrupt regime is out things can only get better. The old order, they claim, was so intensely and profoundly corrupt that it did nothing throughout its 30 years in power but make the rich richer and the poor poorer. Therefore, with the demise of that system and the cronies who ran it, the economy will inevitably improve. All that was needed was for those notorious tycoons of the likes of Ahmed Ezz, Mohamed Abul-Einein, Ibrahim Kamel and Youssef Boutros Ghali, whose names had long clouded the horizons, to vanish. Then the skies would clear, the world would brighten and the economy would be able to take strong and rapid strides forward. After all, the future would have to be better than that dismal past.

The optimists have incontrovertible proof that the economic situation is if not exactly strong at least not as bad as it might be, given the revolutionary upheaval which in other countries would have brought vast deterioration and destruction. Egypt's was generally a "peaceful revolution" and was safeguarded by the army. Also, in spite of many of the temptations that come with revolution, the rule and the institutions of law helped pave the transition from the old order to the new. Therefore, contrary to expectations, the Egyptian pound did not collapse, and although it did decline, that was already its trajectory before the revolution. The same applies to the stock market. Prices fell there too, but not to the devastating degree predicted by some. Moreover, shares began to rise again, and probably would have continued a steady climb had it not been for certain appalling actions undertaken by remnants of the counter- revolution and supporters of the old regime.

However, the optimists' very confidence in Egypt's future is perhaps their strongest argument. The democratic changes that have swept the country have caused Egypt's name to resound abroad. A society free of corruption and transparency in government

will strengthen the confidence of prospective foreign investors and international financial agencies. These, as well as Egyptians and Arabs abroad who are impressed with the accomplishments of the Egyptian revolution, will undoubtedly be prepared to invest much more money in our country and at a broader scale.

The pessimists dismiss this rosy picture. They respond that the revolution has lost the initial glimmer it had when it was championed by young men and women fighting for democracy and against corruption. That image has since been eclipsed by a very bleak one: Salafists marching against churches and women, and the Muslim Brotherhood now dominating the "revolutionary" scene and confident enough to state, already, how many seats it plans to win in the forthcoming parliamentary elections (40 to 50 per cent). The shift in direction of the revolution was palpably manifested in the referendum on the constitutional amendments when the Muslim Brotherhood, rightly or wrongly, succeeded in swaying the majority of the public to vote in favour of amendments that the original revolutionary youth movements had rejected. More ominous yet, we now see the flagrant appearance of Islamist groups that had once been categorised as terrorist organisations. Clearly, the revolution has gradually segued into something other than what it started out as, and what the rest of the world would like to see.

The optimists have also failed to appreciate another important, if simple, point. The Egyptian economy is currently relying to a large extent on the reserves that the previous economic regime had accumulated as it was preparing to boost this year's economic growth rate to 5.8 per cent. The reason the Egyptian pound did not collapse this year was because the government was able to shore it up with \$6 billion that were drawn from the treasury's \$36 billion reserves, the largest ever hard currency reserve in our modern history. Similarly, the fact that rises in commodity prices have so far been relatively moderate is also due to the ability to dip into the reserves built up by the former regime, as well as to the willingness of the current government to increase the national budget deficit to the near danger point of 10 per cent, which will have repercussions on Egypt's fiscal and economic condition. As for the relative health of the stock exchange, in spite of declines, this is largely the product of the still remaining confidence in the "basics" of the Egyptian economy. The best testimony to this is the profile Egypt received in the report of the UN World Tourism Organisation, in which Egypt ranked 18th in the world in terms of the number of tourists it hosts annually and 22nd in terms of tourist spending -- ratings that reflect consumer confidence, competent services and an appropriate infrastructure.

Meanwhile, the optimism on foreign and even domestic investment rests on rather feeble foundations if it takes as its starting point the current level of investment. This is not propitious at all, given that many projects have ground to a halt due to the waves of strikes and the difficult security situation in the country at present. In short, investors clearly prefer to wait until Egypt passes through the transitional phase and the situation stabilises, and until they know what kind of laws they will be operating under.

A no less important consideration is the international economic climate, which is hardly favourable. When Egyptian delegations went to Washington to apply for \$10 billion worth of grants, their request was turned down. The US is reeling under a staggering deficit. The Americans, in turn, asked the delegations why Egypt did not avail itself of the facilities it has already obtained from the US and that it has not yet used, whether under the old regime or the new. The EU, as in awe as it has been with the Egyptian revolution, was just as reluctant. Understandably so, since it has to deal with member countries that are already bankrupt. The EU has had to pour \$80 billion into salvaging Portugal and anxieties are running high over the Spanish economy.

The remaining hope resides in investments from Egyptians, whether at home or abroad, and from other Arab countries. But Egyptians need to feel reassured over the future of their country and whether it will truly become a democratic civil state and a safe and stable society. The Arabs, for their part, will want to see Egypt exercise a regional role that is not based on a revolution that extends a helping hand to revolutions of the sort that have little fondness for Arabs and Arabism. Rather, they are looking for an Egypt that will help lead the way toward stability and to the construction of an Arab regional order that will protect Arab countries from all threats, whether these come from Iran or elsewhere.